



HEALTH QUARTERLY STATEMENT  
AS OF JUNE 30, 2002  
OF THE CONDITION AND AFFAIRS OF THE

THE WELLNESS PLAN

NAIC Group Code	1150	1150	NAIC Company Code	95471	Employer's ID Number	38-2008890
	(Current Period)	(Prior Period)				
Organized under the Laws of	Michigan			State of Domicile or Port of Entry	Michigan	
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health [ ]		Property/Casualty [ ]		Dental Service Corporation [ ]	
	Vision Service Corporation [ ]		Other [ ]		Health Maintenance Organization [ X ]	
	Hospital, Medical & Dental Service or Indemnity [ ]		Is HMO, Federally Qualified? Yes [ X ]		No [ ]	
Incorporated	11/08/1972		Commenced Business	02/28/1973		
Statutory Home Office	2875 W. GRAND BLVD.			DETROIT, MI 48202		
	(Street and Number)			(City or Town, State and Zip Code)		
Main Administrative Office	2875 W. GRAND BLVD.					
	(Street and Number)					
	DETROIT, MI 48202			313-875-4200		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Mail Address	2875 W. GRAND BLVD.			DETROIT, MI 48202		
	(Street and Number or P.O. Box)			(City or Town, State and Zip Code)		
Primary Location of Books and Records	2875 W. GRAND BLVD.					
	(Street and Number)					
	DETROIT, MI 48202			313-875-5335		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Internet Website Address	www.wellplan.com					
Statement Contact	Ashok K. Parikh Mr.			313-875-5335		
	(Name)			(Area Code) (Telephone Number) (Extension)		
	akparikh@wellplan.com			313-875-5670		
	(E-mail Address)			(FAX Number)		
Policyowner Relations Contact	2875 W. GRAND BLVD.					
	(Street and Number)					
	DETROIT, MI 48202			313-875-5335		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number) (Extension)		

OFFICERS

President and CEO	Isadore J. King	Secretary	Stanley R. Kirk
Treasurer	Jimmie A. Hearn		

VICE PRESIDENTS

Ashok K. Parikh	Stanley R. Kirk	Alvin Riddle
Samuel E. McCargo	Dr. Delores Baker	

DIRECTORS OR TRUSTEES

Kathleen Callahan	Arthur L. Johnson	Ernestine Pointer
Jimmie A. Hearn	Wynesse R. Stanford	Gloria Johnson
Bernard Parker	Charles F. Whitten, M.D.	Margie Williams
Ronald Echols	Carol Williams	John Williams
Isadore J. King	Helen Love	John Kerr
Cecelia Stevenson	Walter Watkins, Jr.	

State of Michigan } ss  
County of Wayne }

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

Isadore J. King President and CEO	Stanley R. Kirk Secretary	Jimmie A. Hearn Treasurer
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Subscribed and sworn to before me this  
day of June, 2002

Polly J. Jones  
Notary Public Wayne County, MI  
August 17, 2003

ASSETS

	Current Period			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets	4 Net Admitted Assets
1. Bonds .....				
2. Stocks:				
2.1 Preferred stocks .....				
2.2 Common stocks .....				
3. Mortgage loans on real estate:				
3.1 First liens .....				
3.2 Other than first liens .....				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ ..... encumbrances).....	29,564,533		(a) 29,564,533	30,576,717
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....				
4.3 Properties held for sale (less \$ ..... encumbrances) .....				
5. Cash (\$ .....7,103,732 ) and short-term investments (\$ .....10,422,832 ) .....	17,526,564		17,526,564	30,133,883
6. Other long-term invested assets .....	(7,980,705)		(7,980,705)	(7,414,879)
7. Receivable for securities .....				
8. Aggregate write-ins for invested assets .....	8,536,053	1,272,002	7,264,051	6,024,547
9. Subtotals, cash and invested assets (Lines 1 to 8) .....	47,646,445	1,272,002	46,374,443	59,320,268
10. Accident and health premiums due and unpaid .....	4,179,084	543,172	3,635,912	4,145,199
11. Health care receivables .....	3,122,471		3,122,471	3,301,979
12. Amounts recoverable from reinsurers .....				
13. Net adjustment in assets and liabilities due to foreign exchange rates .....				
14. Investment income due and accrued .....	72,874		72,874	86,508
15. Amounts due from parent, subsidiaries and affiliates .....	10,232		10,232	10,232
16. Amounts receivable relating to uninsured accident and health plans .....				
17. Furniture and equipment .....	3,613,234		3,613,234	3,890,935
18. Amounts due from agents .....				
19. Federal and foreign income tax recoverable and interest thereon (including \$ ..... net deferred tax asset) .....				
20. Electronic data processing equipment and software.....	3,123,228		3,123,228	3,446,216
21. Other nonadmitted assets .....				
22. Aggregate write-ins for other than invested assets .....				
23. Total assets (Lines 9 plus 10 through 22)	61,767,568	1,815,174	59,952,394	74,201,337
DETAILS OF WRITE-INS				
0801. Inventory & Other Assets.....	763,067		763,067	792,786
0802. Current Assets Whose Use is Limited.....			0	0
0803. Other Accounts Receivables.....	3,822,315		3,822,315	3,114,220
0898. Summary of remaining write-ins for Line 8 from overflow page .....	3,950,671	1,272,002	2,678,669	2,117,541
0899. Totals (Lines 0801 thru 0803 plus 0898) (Line 8 above)	8,536,053	1,272,002	7,264,051	6,024,547
2201. Noncurrent Assets Whose Use is Limited.....			0	0
2202. Statutory Reserve.....			0	0
2203. Prepaid Post Retirement Benefit.....			0	0
2298. Summary of remaining write-ins for Line 22 from overflow page .....				
2299. Totals (Lines 2201 thru 2203 plus 2298) (Line 22 above)				

(a) \$ ..... health care delivery assets included in Line 4.1, Column 3

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ ..... reinsurance ceded)	35,798,254		35,798,254	47,009,582
2. Accrued medical incentive pool and bonus payments .....	952,325		952,325	718,977
3. Unpaid claims adjustment expenses .....				
4. Aggregate policy reserves .....	1,987,968		1,987,968	3,975,935
5. Aggregate claim reserves .....				
6. Premiums received in advance .....	3,416,713		3,416,713	3,568,024
7. General expenses due or accrued .....	1,873,045		1,873,045	2,174,324
8. Federal and foreign income tax payable and interest thereon (including \$ ..... on realized capital gains (losses) (including \$ ..... net deferred tax liability) .....				
9. Amounts withheld or retained for the account of others .....	3,222,970		3,222,970	4,029,141
10. Borrowed money (including \$ .....642,529 current) and interest thereon \$ .....6,893 (including \$ .....6,893 current) .....	642,529		642,529	
11. Amounts due to parent, subsidiaries and affiliates .....	1		1	1
12. Payable for securities .....				
13. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ .....unauthorized reinsurers) .....				
14. Reinsurance in unauthorized companies .....				
15. Net adjustments in assets and liabilities due to foreign exchange rates .....				
16. Liability for amounts held under uninsured accident and health plans .....	0		0	0
17. Aggregate write-ins for other liabilities (including \$ ..... current) .....	1,008,470		1,008,470	1,047,005
18 Total liabilities (Lines 1 to 17).....	48,902,275		48,902,275	62,522,989
19. Common capital stock .....	XXX	XXX		
20 Preferred capital stock .....	XXX	XXX		
21. Gross paid in and contributed surplus .....	XXX	XXX		
22. Surplus notes .....	XXX	XXX		
23. Aggregate write-ins for other than special surplus funds .....	XXX	XXX	1,842,574	1,842,574
24. Unassigned funds (surplus) .....	XXX	XXX	9,207,545	9,835,774
25. Less treasury stock, at cost:				
25.1 .....shares common (value included in Line 19) \$ ..... ) .....	XXX	XXX		
25.2 .....shares preferred (value included in Line 20) \$ ..... ) .....	XXX	XXX		
26. Total capital and surplus (Lines 19 to 25) .....	XXX	XXX	11,050,119	11,678,348
27. Total liabilities, capital and surplus (Lines 18 and 26)	XXX	XXX	59,952,394	74,201,337
DETAILS OF WRITE-INS				
1701. Accounts Payable.....			0	0
1702. Accrued Compensation Benefits.....			0	0
1703. Estimated Malpractice cost (current).....			0	0
1798. Summary of remaining write-ins for Line 17 from overflow page .....	1,008,470		1,008,470	1,047,005
1799. Totals (Lines 1701 thru 1703 plus 1798) (Line 17 above)	1,008,470		1,008,470	1,047,005
2301. Medical Care Fund.....	XXX	XXX	1,842,574	1,842,574
2302. Stop Loss fund.....	XXX	XXX		0
2303. Reserve Restricted by Board.....	XXX	XXX	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page .....	XXX	XXX		
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	XXX	XXX	1,842,574	1,842,574

STATEMENT OF REVENUE AND EXPENSES

	Current Year to Date		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	799,856	1,596,772
2. Net premium income .....	XXX	121,436,832	248,328,598
3. Change in unearned premium reserves and reserve for rate credits .....	XXX	0	
4. Fee-for-service (net of \$ .....538,406 medical expenses) .....	XXX	(86,195)	215,457
5. Risk revenue .....	XXX		
6. Aggregate write-ins for other health care related revenues .....	XXX	747,166	3,034,448
7. Total revenues (Lines 2 to 6) .....	XXX	122,097,803	251,578,503
Medical and Hospital:			
8. Hospital/medical benefits .....		70,186,144	191,174,815
9. Other professional services .....		9,965,423	4,129,127
10. Outside referrals .....		2,522,348	3,601,290
11. Emergency room and out-of-area .....		10,005,128	16,742,756
12. Prescription drugs .....		17,131,587	
13. Aggregate write-ins for other medical and hospital .....		(1,987,968)	
14. Incentive pool and withhold adjustments .....		1,342,922	405,929
15. Subtotal (Lines 8 to 14) .....		109,165,584	216,053,917
Less:			
16. Net reinsurance recoveries .....			
17. Total medical and hospital (Lines 15 minus 16) .....		109,165,584	216,053,917
18. Claims adjustment expenses .....		1,793,489	3,939,139
19. General administrative expenses.....		10,876,647	29,599,001
20. Increase in reserves for accident and health contracts .....			3,975,935
21. Total underwriting deductions (Lines 17 through 20) .....		121,835,720	253,567,992
22. Net underwriting gain or (loss) (Lines 7 minus 21) .....	XXX	262,083	(1,989,489)
23. Net investment income earned .....		421,016	1,798,688
24. Net realized capital gains or (losses) .....		15,150	227,416
25. Net investment gains or (losses) (Lines 23 plus 24) .....		436,166	2,026,104
26. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ .....)(amount charged off \$ .....)] .....			
27. Aggregate write-ins for other income or expenses .....		(1,326,478)	(397,726)
28. Net income or (loss) before federal income taxes (Lines 22 plus 25 plus 26 plus 27) .....		(628,229)	(361,111)
29. Federal and foreign income taxes incurred .....	XXX		
30. Net income (loss) (Lines 28 minus 29) .....	XXX	(628,229)	(361,111)
DETAILS OF WRITE-INS			
0601. Volume Purchase Discount.....	XXX		0
0602. Reg. Fees, Lab Radiology & Other.....	XXX		0
0603. Other Miscellaneous Revenue.....	XXX		0
0698. Summary of remaining write-ins for Line 6 from overflow page .....	XXX	747,166	3,034,448
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above) .....	XXX	747,166	3,034,448
1301. Change in Deficiency Reserve.....		(1,987,968)	0
1302. ....			
1303. ....			
1398. Summary of remaining write-ins for Line 13 from overflow page .....			
1399. Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above) .....		(1,987,968)	
2701. Change in Non-Admitted Assets.....		(1,345,298)	(397,726)
2702. Unrealized Gains and Losses.....		18,820	0
2703. ....			
2798. Summary of remaining write-ins for Line 27 from overflow page .....			
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above) .....		(1,326,478)	(397,726)

CAPITAL AND SURPLUS ACCOUNT

	1 Current Year to Date	2 Prior Year
<b>CAPITAL AND SURPLUS ACCOUNT:</b>		
31. Capital and surplus prior reporting period .....	11,678,348	12,039,459
<b>GAINS AND LOSSES TO CAPITAL &amp; SURPLUS:</b>		
32. Net income or (loss) from Line 30 .....	(628,229)	(361,111)
33. Change in valuation basis of aggregate policy and claim reserves .....		
34. Net unrealized capital gains and losses .....		
35. Change in net unrealized foreign exchange capital gain or (loss) .....		
36. Change in net deferred income tax .....		
37. Change in nonadmitted assets .....		
38. Change in unauthorized reinsurance .....		
39. Change in treasury stock .....		
40. Change in surplus notes .....		
41. Cumulative effect of changes in accounting principles .....		
42. Capital Changes:		
42.1 Paid in .....		
42.2 Transferred from surplus (Stock Dividend) .....		
42.3 Transferred to surplus .....		
43. Surplus adjustments:		
43.1 Paid in .....		
43.2 Transferred to capital (Stock Dividend) .....		
43.3 Transferred from capital .....		
44. Dividends to stockholders .....		
45. Aggregate write-ins for gains or (losses) in surplus .....		
46. Net change in capital & surplus (Lines 32 to 45) .....	(628,229)	(361,111)
47. Capital and surplus end of reporting period (Line 31 plus 46)	11,050,119	11,678,348
<b>DETAILS OF WRITE-INS</b>		
4501. ....		
4502. ....		
4503. ....		
4598. Summary of remaining write-ins for Line 45 from overflow page .....		
4599. Totals (Lines 4501 thru 4503 plus 4598) (Line 45 above)		

STATEMENT AS OF JUNE 30, 2002 OF THE THE WELLNESS PLAN

CASH FLOW

	1 Current Year to Date	2 Prior Year
<b>Cash from Operations</b>		
1. Premiums and revenues collected net of reinsurance .....	122,219,023	247,349,493
2. Claims and claims adjustment expenses .....	123,325,167	230,188,314
3. General administrative expenses paid .....	11,132,734	29,675,946
4. Other underwriting income (expenses) .....	747,166	5,938,022
5. Cash from underwriting (Line 1 minus Line 2 minus Line 3 plus Line 4) .....	(11,491,712)	(6,576,745)
6. Net investment income .....	421,016	1,833,398
7. Other income (expenses) .....		
8. Federal and foreign income taxes (paid) recovered .....		
9. Net cash from operations (Lines 5 to 8) .....	(11,070,696)	(4,743,347)
<b>Cash from Investments</b>		
10. Proceeds from investments sold, matured or repaid:		
10.1 Bonds .....		
10.2 Stocks .....		
10.3 Mortgage loans .....		
10.4 Real estate .....		
10.5 Other invested assets .....		
10.6 Net gains or (losses) on cash and short-term investments .....	15,150	43,474
10.7 Miscellaneous proceeds .....		
10.8 Total investment proceeds (Lines 10.1 to 10.7) .....	15,150	43,474
11. Cost of investments acquired (long-term only):		
11.1 Bonds .....		
11.2 Stocks .....		
11.3 Mortgage loans .....		
11.4 Real estate .....	11,840	294,416
11.5 Other invested assets .....		
11.6 Miscellaneous applications .....		
11.7 Total investments acquired (Lines 11.1 to 11.6) .....	11,840	294,416
12. Net Cash from investments (Line 10.8 minus Line 11.7) .....	3,310	(250,942)
<b>Cash from Financing and Miscellaneous Sources</b>		
13. Cash provided:		
13.1 Surplus notes, capital and surplus paid in .....		
13.2 Net transfers from affiliates .....	0	
13.3 Borrowed funds received .....	1,473,606	
13.4 Other cash provided .....	0	5,563,148
13.5 Total (Lines 13.1 to 13.4) .....	1,473,606	5,563,148
14. Cash applied:		
14.1 Dividends to stockholders paid .....	0	
14.2 Net transfers to affiliates .....		
14.3 Borrowed funds repaid .....	831,077	
14.4 Other applications .....	2,182,462	
14.5 Total (Lines 14.1 to 14.4) .....	3,013,539	
15. Net cash from financing and miscellaneous sources (Line 13.5 minus Line 14.5) .....	(1,539,933)	5,563,148
<b>RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS</b>		
16. Net change in cash and short-term investments (Line 9 plus Line 12 plus Line 15) .....	(12,607,319)	568,859
17. Cash and short-term investments:		
17.1 Beginning of period .....	30,133,883	29,565,024
17.2 End of period (Line 16 plus Line 17.1) .....	17,526,564	30,133,883

STATEMENT AS OF JUNE 30, 2002 OF THE THE WELLNESS PLAN

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1	Comprehensive (Hospital & Medical)		4	5	6	7	8	9	10
		2	3							
	Total	Individual	Group	Medicare Supplement	Vision Only	Dental Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
<b>Total Members at end of:</b>										
1. Prior Year .....	134,548	18	17,521						117,009	
2 First Quarter .....	135,037	25	16,710				1,020		117,282	
3 Second Quarter .....	130,295	25	14,389				1,083		114,798	
4. Third Quarter .....										
5. Current Year	130,295	25	14,389				1,083		114,798	
6 Current Year Member Months	799,856	150	95,407				7,181		697,118	
<b>Total Member Ambulatory Encounters for Period:</b>										
7. Physician .....	94,791		9,412				708		84,671	
8. Non-Physician .....	299,984		22,793				1,716		275,475	
9. Total	394,775		32,205				2,424		360,146	
10. Hospital Patient Days Incurred	30,480		2,790				210		27,480	
11. Number of Inpatient Admissions	6,266		498				37		5,731	
12. Premiums Collected .....	122,219,023		14,935,165				953,308		106,330,550	
13. Premiums Earned	121,436,832		14,778,804				1,007,984		105,650,044	
14. Amount Paid for Provision of Health Care Services .....	123,325,167		15,070,336				961,936		107,292,895	
15. Amount Incurred for Provision of Health Care Services	110,959,073		13,559,198				865,481		96,534,394	

## CLAIMS PAYABLE (Reported and Unreported)

[illegible]



UNDERWRITING AND INVESTMENT EXHIBIT  
ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid Year to Date		Liability End of Current Quarter		5  Claims Incurred in Prior Years (Columns 1 + 3)	6  Estimated Claim Reserve and Claim Liability Dec. 31 of Prior Year
	1  On Claims Incurred Prior to January 1 of Current Year	2  On Claims Incurred During the Year	3  On Claims Unpaid Dec. 31 of Prior Year	4  On Claims Incurred During the Year		
1. Comprehensive (Hospital & Medical) .....	4,707,716	4,856,862	1,036,855	3,337,692	5,744,571	5,744,571
2. Medicare Supplement .....						
3. Dental Only.....						
4. Vision Only.....						
5. Federal Employees Health Benefits Plan Premiums .....	300,493	310,013	66,182	213,044	366,675	366,675
6. Title XVIII - Medicare .....						
7. Title XIX - Medicaid.....	33,516,474	34,578,316	7,381,862	23,762,619	40,898,336	40,898,336
8. Other .....						
9. Subtotal .....	38,524,683	39,745,191	8,484,899	27,313,355	47,009,582	47,009,582
10. Medical incentive pools, accruals and disbursements .....	718,977			952,325	718,977	718,977
11. Totals	39,243,660	39,745,191	8,484,899	28,265,680	47,728,559	47,728,559

## NOTES TO FINANCIAL STATEMENTS

Statement As Of June 30, 2002 OF THE WELLNESS PLAN  
(TWP)

### NOTES TO FINANCIAL STATEMENTS

#### ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

**Organization** - The Wellness Plan (the 'Corporation') is a non-profit, federally qualified health maintenance organization (HMO), which provides comprehensive prepaid health services to its members. The Corporation's members are located and serviced primarily in the southeastern Michigan area.

Effective June 29, 2000, Public Act 252 (the 'Act') repealed Part 210 of the Public Health Code and changed the oversight responsibilities for an HMO from the Insurance Bureau and Department of Community Health to the Office of Financial and Insurance Services of the State of Michigan (OFIS). This legislation revised statutory reporting requirements, certain net worth and working capital requirements in addition to other administrative requirements.

The Corporation has an agreement with the Michigan Department of Community Health whereby the Company assumes the financial risk associated with providing health care services to enrollees in Southeastern Michigan. This agreement, which expires in 2003, accounts for substantially all of the Corporation's capitation revenue. The Corporation has contractual agreements with health care providers to provide health care services to members. These agreements provide for sharing of financial risk associated with providing health care services to the members assigned to the providers. The Corporation recognizes capitation revenue and expense for medical services for the members covered by this agreement.

In March 1998, the National Association of Insurance Commissioners (NAIC) adopted the Codification of Statutory Accounting Principles (the Codification). The Codification, which is intended to standardize regulatory accounting and reporting for the insurance industry, is expected to be effective January 1, 2003. Management has not completed assessment of the impact of the Codification on its statutory financial statements. The impact of the Codification on statutory financial statements could be significant.

#### SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The accompanying financial statements-statutory basis have been prepared in conformity with the NAIC Annual Statement Instructions and Accounting Practices Manual effective December 31, 2001 and the permitted practices of OFIS, which are designed primarily to demonstrate the ability of an entity to meet claims of policyholders. These practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP") applied in the presentation of financial position and results of operations, and in some cases, those differences may be material.

**Statutory Accounting** - Accounting practices and procedures are prescribed or permitted by OFIS comprise a comprehensive basis of accounting other than GAAP. Certain assets, such as premiums over 90 days past due, goodwill, excess of book value over market value for securities, and prepaid expenses are "nonadmitted" and are charged against surplus.

**Fair Value of Financial Instruments** - The carrying amounts of cash, short-term investments, receivables, accounts payable, and accrued expenses approximate fair value due to the short maturity of these items. Investments are valued at fair values which are based on quoted market prices.

**Cash and Short-term Investments** are carried at cost, which approximate fair market value, and are comprised of cash and short-term investments.

**Inventories** are stated at the lower of cost or market, determined by the first-in, first-out method.

**Property and Equipment** are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets which range from 3 to 30 years.

**Statutory Reserves** - As a condition of licensure with the State of Michigan, the Corporation is required to maintain a contingency fund a deposit of \$1,000,000 as an additional resource to provide for health care services for its members. This deposit is restricted and is held in a jointly administered trust fund with the Office of Financial and Insurance Services. The funds are invested in certificates of deposit and U.S. Government securities. Interest income on these funds is not restricted.

**Revenue Recognition** - Revenue is recognized during the month in which coverage for enrolled members is in effect. Unearned revenue represents advance billings during the month prior to that in which coverage is in effect.

**Accrued Medical Claims** - Health care costs are accrued in the period services are provided to the enrolled members based in part on estimates, including an accrual for medical services provided but not yet reported. Such estimates are

## NOTES TO FINANCIAL STATEMENTS

based on historical payment patterns using actuarial techniques and are regularly reviewed and updated. Differences in estimates resulting therefrom are reflected in current operations.

**Malpractice Costs** - The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Income Tax Status** - The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been made in the financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with NAIC' s and OFIS' s accounting practices and permitted practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the statement of admitted assets, liabilities and net worth - statutory basis, and revenues, expenses and net worth - statutory basis for the period reported on. Actual results could differ from those estimates.

### ASSETS WHOSE USE IS LIMITED

#### (a) **Malpractice Self-Insurance**

The Corporation has a program of self-insurance for professional and general liability risk resulting from occurrences for the period from April 1979 to date. As part of this program, the Corporation established a trust fund for which payments were to be made for professional and general liability claims losses arising from occurrences during the coverage period, and for related legal and administrative expenses. However, since the inception of the program, the Corporation has paid all claims and related expenses from current operations.

The Corporation has previously made deposits into this fund based on funding requirements determined by annual certified actuarial studies. During 1999, the Board of Trustees designated that the case and investments held in the trust fund could be used for working capital purposes. Accordingly, the trust fund is not fully funded as of June 30, 2002.

#### (b) **Self-Insured Stop Loss Plan**

The Corporation has a self-insured stop loss plan and trust to provide a trust fund to pay any of the plan' s members' health care expenses which exceed \$50,000. No contributions were made into the plan during 2002. During the year ended June 30, 2002, all of the members' health care expenses exceeding \$50,000 were paid from current operations.

### EMPLOYEE BENEFIT PLANS

#### **Money-Purchase Pension Plan**

The Corporation has a qualified money-purchase pension plan for the benefit of substantially all employees. The Corporation is required to make a contribution to a trust of 6% of the annual aggregate compensation paid to all participating employees and may make additional contributions as provided by the Board of Trustees. Contributions charged against operations for the six months ended June 30, 2002 was \$300,450.

#### **Deferred Compensation Plan**

The Corporation has a non-qualified deferred compensation plan covering several key employees. The plan requires pre-determined annual payments be made to these individuals for a period of ten years after a specified date. The present value of these payments is recorded as a liability in the statement of financial position. Deposits are made into separate corporate accounts in amounts estimated to be sufficient to meet the projected benefit obligations. Plan assets at June 30, 2002 total \$763,067 and consist of equity and bond mutual funds and a fixed annuity account.

In addition, this deferred compensation plan includes a separate "incentive account" for each participant. Contributions to the incentive accounts are discretionary and determined annually by the Board of Trustees. Amounts contributed to the participant' s "incentive account" are vested on the date of contribution and are nonforfeitable. During 2002 and 2001, no discretionary contributions were made to the participant' s incentive accounts.

### COMMITMENTS AND CONTINGENCIES

**Litigation** - Various lawsuits are filed against the Corporation for incidents which arise in the ordinary course of business. In the opinion of the Corporation' s management, the outcome of the lawsuits will not have a material adverse effect on the financial position of the Corporation.

**Malpractice Self-Insurance** - As described above, the Corporation instituted a self-insurance program for professional and general liability risks. The program provided for limits of \$1,000,000 per occurrence through December 31, 1991 and \$2,000,000 per occurrence for claims incurred between January 1, 1992 and May 17, 1995. Effective May 18, 1995, the Corporation increased the retention to \$3,000,000 per claim. In conjunction with these program limits, the Corporation purchased insurance policies for an amount in excess of \$3,000,000 up to a maximum of \$20,000,000 per claim and \$10,000,000 for each period covered.

### DEBT

NOTES TO FINANCIAL STATEMENTS

The Corporation has two outstanding liabilities for borrowed funds totalling \$642,529 due to Cananwill and Western Commerce Bank. The principal amounts are due in 2003. Interest rate at 4.8% is included with each monthly installment payment of \$50,442 and \$113,292.

INVESTMENTS

The carrying amounts of investments and assets whose use is limited are as follows:

	June 30, 2002	December 2001
Current assets:		
Bond mutual funds	\$9,445,681	\$9,419,272
Equity mutual funds		
Certificates of deposit	<u>                    </u>	
Total	<u>\$9,445,681</u>	<u>\$9,419,272</u>
Assets whose use is limited:		
Cash equivalents	\$2,560,329	\$3,300,043
Bond mutual funds	<u>3,729,376</u>	<u>\$3,718,949</u>
Total	\$6,289,705	\$7,018,992

OPERATING LEASES

The Corporation has operating leases for various office facilities in Michigan. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2001:

2002	\$508,564
2003	444,605
2004	54,000
2005	54,000
2006	<u>54,000</u>
Total minimum payments required	<u>\$1,115,169</u>

The total rental expense for all operating leases amounted to \$535,435 and \$510,000 for the years ended December 31, 2001 and 2000, respectively.

MINIMUM NET WORTH REQUIREMENTS

The Corporation is required to comply with a minimum net worth requirement and a minimum working capital requirement both developed by the OFIS. The Corporation has not met the working capital requirement. The OFIS has the authority to place the Corporation in receivership. Management is working with the OFIS to develop a plan to meet these requirements. Management expects to meet the working capital requirement in 2002 and does not expect the OFIS to take any further action relating to this deficiency.

EMPLOYEE SEVERANCE COSTS

In connection with an employee severance plan offered by the Corporation in 1998, approximately 100 eligible employees elected to resign in exchange for severance benefits. The severance benefits will be paid to electing employees over a maximum of eight years. The Corporation funds the remaining severance benefits by making payments to a third-party administrator. Payments of approximately \$42,000 per year are due from 2002 through 2006.

## NOTES TO FINANCIAL STATEMENTS

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted.)

PART 1 - COMMON INTERROGATORIES  
GENERAL

1.1 Did the reporting entity implement any significant accounting policy changes which would require disclosure in the Notes to the Financial Statements? ..... Yes [ ] No [X]

1.2 If yes, explain: .....  
.....

2.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes [ ] No [X]

2.2 If yes, has the report been filed with the domiciliary state? ..... Yes [ ] No [ ]

3.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [ ] No [X]

3.2 If yes, date of change: .....  
If not previously filed, furnish herewith a certified copy of the instrument as amended.

4. Have there been any substantial changes in the organizational chart since the prior quarter end? ..... Yes [ ] No [X]  
If yes, attach an organizational chart.

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [X]

5.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile
.....	.....	.....
.....	.....	.....
.....	.....	.....

6. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? ..... Yes [ ] No [X] NA [ ]  
If yes, attach an explanation.

7.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2001

7.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/1997

7.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 04/15/1999

7.4 By what department or departments? .....  
.....

8.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) ..... Yes [ ] No [X]

8.2 If yes, give full information: .....  
.....

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted.)

INVESTMENT

9.1 Has there been any change in the reporting entity's own preferred or common stock? ..... Yes [ ] No [X]

9.2 If yes, explain:  
.....

10.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) ..... Yes [ ] No [X]

10.2 If yes, give full and complete information relating thereto:  
.....

11. Amount of real estate and mortgages held in other invested assets in Schedule BA: .....\$ .....

12. Amount of real estate and mortgages held in short-term investments: .....\$ .....0

13.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? ..... Yes [X] No [ ]

13.2 If yes, please complete the following:

		1	2
		Prior Year-End Statement Value	Current Quarter Statement Value
13.21	Bonds .....	\$ .....	\$ .....
13.22	Preferred Stock .....	\$ .....	\$ .....
13.23	Common Stock .....	\$ .....	\$ .....
13.24	Short-term Investments .....	\$ .....	\$ .....
13.25	Mortgages, Loans or Real Estate .....	\$ .....	\$ .....
13.26	All Other .....	\$ 10,232	\$ 10,232
13.27	Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 13.21 to 13.26).....	\$ 10,232	\$ 10,232
13.28	Total Investment in Parent included in Lines 13.21 to 13.26 above .....	\$ .....	\$ .....
13.29	Receivable from Parent not included in Lines 13.21 to 13.26 above .....	\$ .....	\$ .....

14.1 Does the reporting entity have any hedging transactions reported on Schedule DB? ..... Yes [ ] No [X]

14.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes [ ] No [ ]

If no, attach a description with this statement.

15. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? ..... Yes [X] No [ ]

15.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address

15.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

15.3 Have there been any changes, including name changes in the custodian(s) identified in 15.1 during the current year? ..... Yes [ ] No [X]

15.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

15.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address

SCHEDULE A - VERIFICATION

	1 First Quarter Current Year	2 Second Quarter Current Year	3 Third Quarter Current Year	4 Prior Year Ended December 31
1. Book/adjusted carrying value, beginning of period .....	30,576,717	30,071,622		32,371,705
2. Increase (decrease) by adjustment .....	(516,935)	(507,089)		(2,089,404)
3. Cost of acquired .....				
4. Cost of additions to and permanent improvements .....	11,840			294,416
5. Total profit (loss) on sales .....				
6. Increase (decrease) by foreign exchange adjustment .....				
7. Amount received on sales .....				
8. Book/adjusted carrying value at end of current period .....	30,071,622	29,564,533		30,576,717
9. Total valuation allowance .....				
10. Subtotal (Lines 8 plus 9) .....	30,071,622	29,564,533		30,576,717
11. Total nonadmitted amounts .....				
12. Statement value, current period (Page 2, real estate lines, current period)	30,071,622	29,564,533		30,576,717

SCHEDULE B - VERIFICATION

	1 First Quarter Current Year	2 Second Quarter Current Year	3 Third Quarter Current Year	4 Prior Year Ended December 31
1. Book/recorded investment excluding accrued interest on mortgages owned, beginning of period .....				
2. Amount loaned during period:				
2.1. Actual cost at time of acquisitions .....				
2.2. Additional investment made after acquisitions .....				
3. Accrual of discount and mortgage interest points and commitment fees .....				
4. Increase (decrease) by adjustment .....				
5. Total profit (loss) on sale .....				
6. Amounts paid on account or in full during the period .....				
7. Amortization of premium .....				
8. Increase (decrease) by foreign exchange adjustment .....				
9. Book value/recorded investment excluding accrued interest on mortgages owned at end of current period .....				
10. Total valuation allowance .....				
11. Subtotal (Lines 9 plus 10) .....				
12. Total nonadmitted amounts .....				
13. Statement value of mortgages owned at end of current period				

NONE

SCHEDULE BA - VERIFICATION

Other Invested Assets Included in Schedule BA

	1 First Quarter Current Year	2 Second Quarter Current Year	3 Third Quarter Current Year	4 Prior Year Ended December 31
1. Book/adjusted carrying value of long-term invested assets owned, beginning of period .....	(7,414,879)	(7,259,843)		(8,201,003)
2. Cost of acquisitions during period:				
2.1. Actual cost at time of acquisitions .....				7,915,427
2.2. Additional investment made after acquisitions .....				
3. Accrual of discount .....				
4. Increase (decrease) by adjustment .....	155,036	(720,862)		(7,129,303)
5. Total profit (loss) on sale .....				
6. Amounts paid on account or in full during the period .....				
7. Amortization of premium .....				
8. Increase (decrease) by foreign exchange adjustment .....				
9. Book/adjusted carrying value of long-term invested assets at end of current period .....	(7,259,843)	(7,980,705)		(7,414,879)
10. Total valuation allowance .....				
11. Subtotal (Lines 9 plus 10) .....	(7,259,843)	(7,980,705)		(7,414,879)
12. Total nonadmitted amounts .....				
13. Statement value of long-term invested assets at end of current period	(7,259,843)	(7,980,705)		(7,414,879)



STATEMENT AS OF JUNE 30, 2002 OF THE THE WELLNESS PLAN

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Statement Value Beginning of Current Quarter	2  Acquisitions During Current Quarter	3  Dispositions During Current Quarter	4  Non-Trading Activity During Current Quarter	5 Statement Value End of First Quarter	6 Statement Value End of Second Quarter	7 Statement Value End of Third Quarter	8 Statement Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 .....	9,340,044			105,637	9,340,044	9,445,681		9,419,272
2. Class 2 .....	908,936			(5,732)	908,936	903,204		902,424
3. Class 3 .....	101,132			(776)	101,132	100,356		100,447
4. Class 4 .....								
5. Class 5 .....								
6. Class 6 .....								
7. Total Bonds	10,350,112			99,129	10,350,112	10,449,241		10,422,143
<b>PREFERRED STOCK</b>								
8. Class 1 .....								
9. Class 2 .....								
10. Class 3 .....								
11. Class 4 .....								
12. Class 5 .....								
13. Class 6 .....								
14. Total Preferred Stock								
15. Total Bonds and Preferred Stock	10,350,112			99,129	10,350,112	10,449,241		10,422,143

SCHEDULE DA - PART 1

Short-Term Investments Owned End of Current Quarter					
	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Amount of Interest Received Current Quarter	Paid for Accrued Interest
8099999 Totals	10,422,832	XXX	10,291,021	112,167	37,041

SCHEDULE DA - PART 2- Verification

Short-Term Investments Owned				
	1	2	3	4
	First Quarter Current Year	Second Quarter Current Year	Third Quarter Current Year	Prior Year Ended December 31
1. Book/adjusted carrying value, beginning of period .....	10,422,143	10,429,340		10,208,146
2. Cost of short-term investments acquired .....	10,297,529			10,290,332
3. Increase (decrease) by adjustment .....	301,197	(6,508)		
4. Increase (decrease) by foreign exchange adjustment .....				
5. Total profit (loss) on disposal of short-term investments .....	(129,992)			(24,972)
6. Consideration received on disposal of short-term investments .....	10,461,537			10,051,363
7. Book/adjusted carrying value, current period .....	10,429,340	10,422,832		10,422,143
8. Total valuation allowance .....	(79,228)	0		
9. Subtotal (Lines 7 plus 8) .....	10,350,112	10,422,832		10,422,143
10. Total nonadmitted amounts .....		0		
11. Statement value (Lines 9 minus 10) .....	10,350,112	10,422,832		10,422,143
12. Income collected during period .....	130,526	228,129		236,100
13. Income earned during period .....	300,430	229,270		276,594

Schedule DB - Part F - Section 1

NONE

Schedule DB - Part F - Section 2

NONE

Schedule S

NONE

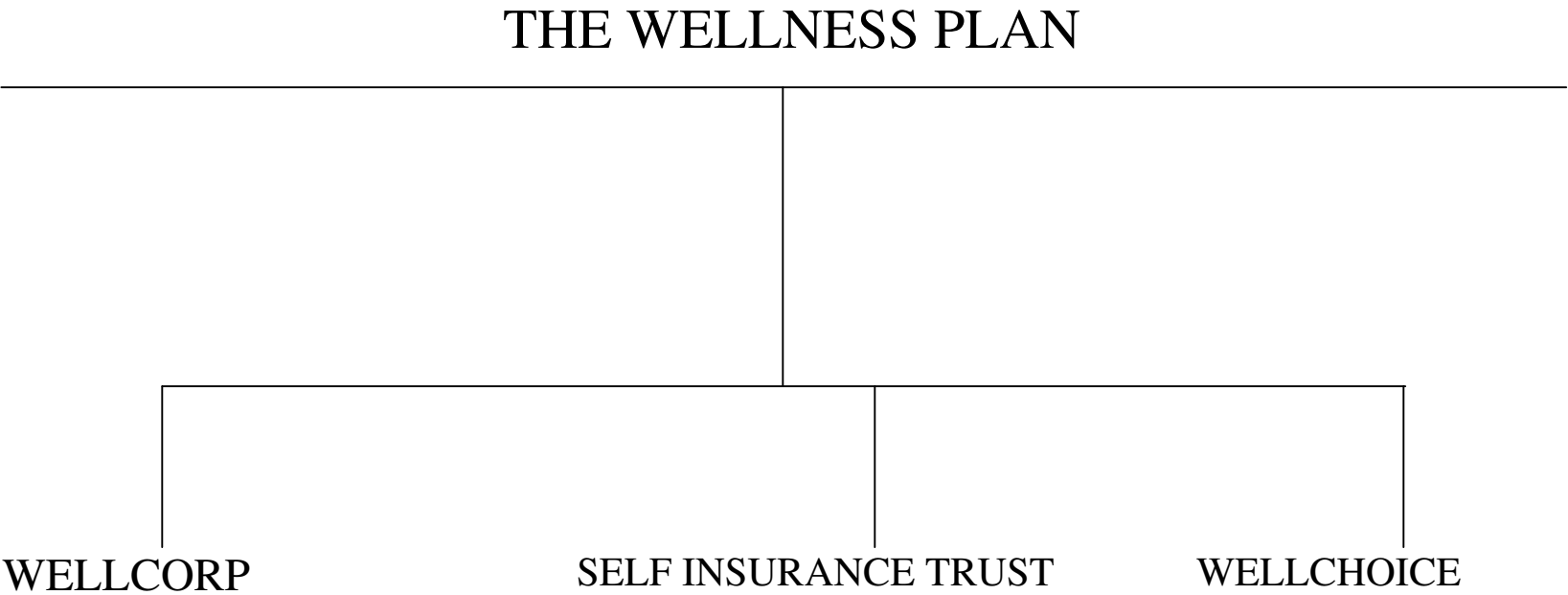
SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

States, Etc.	1	2	Direct Business Only Year-to-Date			
	Guaranty Fund (Yes or No)	Is Insurer Licensed? (Yes or No)	3 Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefit Program Premium
1. Alabama .....	AL					
2. Alaska .....	AK					
3. Arizona .....	AZ					
4. Arkansas .....	AR					
5. California .....	CA					
6. Colorado .....	CO					
7. Connecticut .....	CT					
8. Delaware .....	DE					
9. District of Columbia .....	DC					
10. Florida .....	FL					
11. Georgia .....	GA					
12. Hawaii .....	HI					
13. Idaho .....	ID					
14. Illinois .....	IL					
15. Indiana .....	IN					
16. Iowa .....	IA					
17. Kansas .....	KS					
18. Kentucky .....	KY					
19. Louisiana .....	LA					
20. Maine .....	ME					
21. Maryland .....	MD					
22. Massachusetts .....	MA					
23. Michigan .....	MI	No	Yes	14,778,804	105,650,044	1,007,984
24. Minnesota .....	MN					
25. Mississippi .....	MS					
26. Missouri .....	MO					
27. Montana .....	MT					
28. Nebraska .....	NE					
29. Nevada .....	NV					
30. New Hampshire .....	NH					
31. New Jersey .....	NJ					
32. New Mexico .....	NM					
33. New York .....	NY					
34. North Carolina .....	NC					
35. North Dakota .....	ND					
36. Ohio .....	OH					
37. Oklahoma .....	OK					
38. Oregon .....	OR					
39. Pennsylvania .....	PA					
40. Rhode Island .....	RI					
41. South Carolina .....	SC					
42. South Dakota .....	SD					
43. Tennessee .....	TN					
44. Texas .....	TX					
45. Utah .....	UT					
46. Vermont .....	VT					
47. Virginia .....	VA					
48. Washington .....	WA					
49. West Virginia .....	WV					
50. Wisconsin .....	WI					
51. Wyoming .....	WY					
52. American Samoa .....	AS					
53. Guam .....	GU					
54. Puerto Rico .....	PR					
55. U.S. Virgin Islands .....	VI					
56. Canada .....	CN					
57. Aggregate Other Alien .....	OT	XXX	XXX			
58. Total (Direct Business)	XXX	(a) 1	14,778,804		105,650,044	1,007,984
DETAILS OF WRITE-INS						
5701. ....						
5702. ....						
5703. ....						
5798. Summary of remaining write-ins for Line 57 from overflow page .....						
5799. Totals (Lines 5701 thru 5703 plus 5798)(Line 57 above)						

(a) Insert the number of yes responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART



SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of **NO** to the specific interrogatory will be accepted in lieu of filing on NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter **SEE EXPLANATION** and provide an explanation following the interrogatory question.

RESPONSE

1. Will the SVO Compliance Certification be filed with this statement?

Yes

Explanation:

Bar Code:

OVERFLOW PAGE FOR WRITE-INS

MQ002 Additional Aggregate Lines for Page 02 Line 8.  
\*ASSETS

0804. Prepaid Expenses.....	1,272,002	1,272,002	.0	.0
0805. Advances.....			.0	.0
0806. Excess Funding Retiree Health Plan.....	1,910,102		1,910,102	1,346,786
0807. Funds Held for Deferred Compensation Plan.....	768,567		768,567	770,755
0897. Summary of remaining write-ins for Line 8 from Page 02	3,950,671	1,272,002	2,678,669	2,117,541

MQ003 Additional Aggregate Lines for Page 03 Line 17.  
\*LIAB

1704. Deferred Compensation.....	751,344		751,344	758,576
1705. Employee Severance Cost (current).....	41,600		41,600	41,600
1706. Estimated Malpractice Cost (net).....	.0		.0	.0
1707. Employee Severance cost (net of current).....	158,632		158,632	166,400
1708. Other Liabilities.....	56,894		56,894	80,429
1709. Deficiency Reserve (Commercial).....			.0	.0
1797. Summary of remaining write-ins for Line 17 from Page 03	1,008,470		1,008,470	1,047,005

MQ004 Additional Aggregate Lines for Page 04 Line 6.  
\*REVEX1

0604. COB.....	XXX	167,221	428,876
0605. PCS Revenue.....	XXX	486,762	2,328,847
0606. Insurance Proceeds.....	XXX	.0	276,725
0607. Miscellaneous Revenue.....	XXX	83,468	.0
0608. Rent.....	XXX	9,715	.0
0697. Summary of remaining write-ins for Line 6 from Page 04	XXX	747,166	3,034,448

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 1

NONE

Schedule B - Part 2

NONE

Schedule BA - Part 1

NONE

Schedule BA - Part 2

NONE

Schedule D - Part 3

NONE

Schedule D - Part 4

NONE

Schedule DB - Part A - Section 1

NONE

Schedule DB - Part B - Section 1

NONE

Schedule DB - Part C - Section 1

NONE



Schedule DB - Part D - Section 1

NONE

## SCHEDULE E - PART 1 - CASH

# E08